

FDIC State Profile

Spring 2006

New Hampshire

The construction industry and several service sectors led New Hampshire employment growth in 2005.

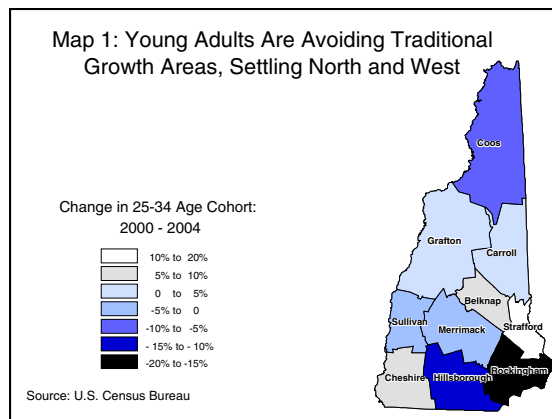
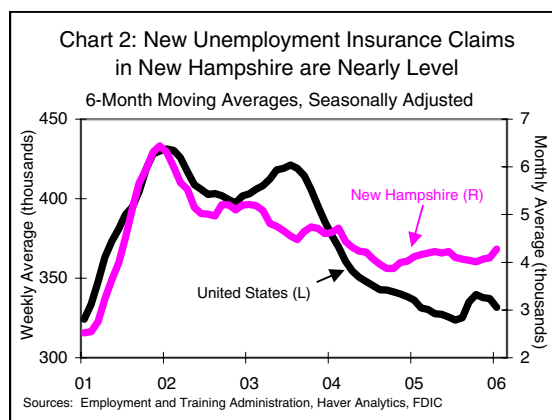
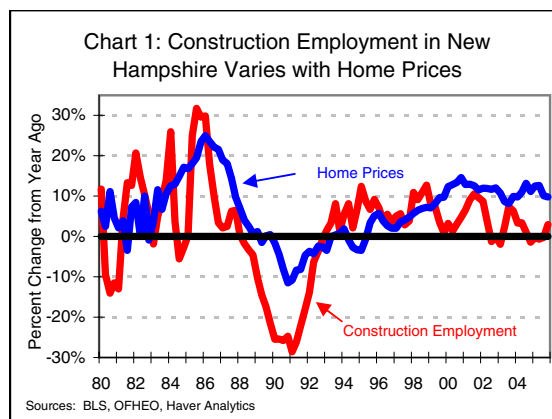
- The New Hampshire economy added 5,400 new jobs from fourth quarter 2004 through fourth quarter 2005, a gain of 0.9 percent. Construction job growth was impressive during the year, increasing by 3.1 percent. Growth in the service sector was also quite strong, especially financial activities, professional and business services and education and health services. Although it accounts for less than 5 percent of jobs in the state, the construction industry contributed one-sixth of all job growth.
- Construction employment is highly variable over time and is significantly influenced by the behavior of housing prices (see Chart 1). This was especially the case in the 1980s and early 1990s, but somewhat less so now. Given this relationship, the recent slowing in the rate of home appreciation may portend some decrease in the growth in construction employment.
- Of the construction subsectors, specialty trade contracting (plumbing, painting, and electrical work) had growth during the year of 2.3 percent and accounted for almost two-thirds of construction employment in the state.
- Manufacturing posted a 1.9 percent decrease, with a particularly weak performance occurring in the manufacturing of transportation equipment.

Unemployment insurance claims show slow improvement in New Hampshire.

- Since reaching a peak monthly average over 6,400 late in 2001, initial unemployment insurance claims have declined to more moderate levels. As of January 2006, the six-month seasonally adjusted monthly average stood at just under 4,300 (see Chart 2).
- This level of new claim activity is very near New Hampshire's historical average, suggesting moderate gains in employment over the near term.

New Hampshire saw a declining young adult population in recent years.

- Despite the state's overall robust population and economic growth, New Hampshire posted a 6.3 percent decline in



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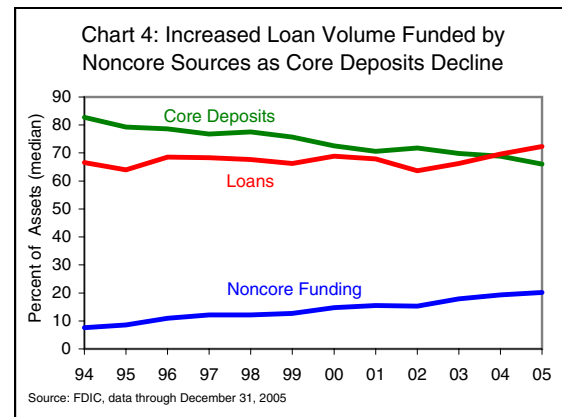
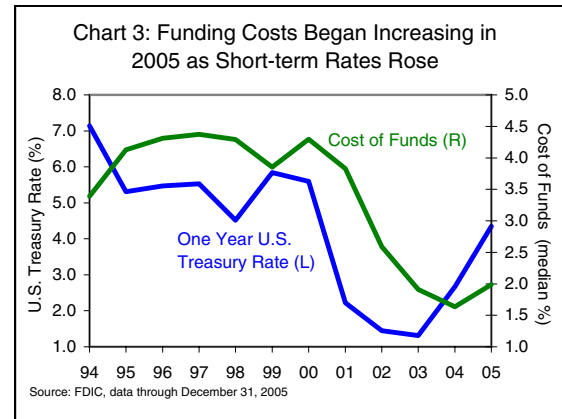
the young adult cohort (25 to 34 year-olds) from 2000 to 2004, compared to 0.5 percent growth for the country. The young adult cohort can set the pace for economic development of the area as they join the workforce and form households.

- **Hillsborough and Rockingham**, which account for over half of New Hampshire's population, recorded losses of this young adult cohort of 12.1 and 15.5 percent, respectively (see Map 1). This is surprising since most of New Hampshire's businesses have been growing in these counties for the past several decades. The sluggish recovery from the high tech bust in the area, which has restrained job growth, is the most likely cause of the decline in the young adult population.

Rising short-term interest rates, a flatter yield curve, and a decline in core deposits are pressuring net interest margins (NIMs).

- NIMs reported by the state's institutions have been on a general decline since the mid 1990s. NIMs showed signs of improvements in 2002 but dropped sharply in 2003. NIMs slightly improved early in 2005 but declined in the second half of the year. At year-end 2005, the NIM was 4.03 percent, five basis points lower than the year earlier period.
- In 2004, the Federal Reserve began a series of increases in short-term interest rates that have continued into the early part of 2006. These increases led to a flattening yield curve as the difference in short-term rates and long-term rates narrowed.¹
- A flattening yield curve often causes NIM compression as banks tend to borrow short-term and lend longer-term. New Hampshire's insured institutions saw NIMs and earnings decline as funding costs began to increase late in 2005 in response to rising short-term interest rates (see Chart 3).
- With fewer low cost core deposits to fund loan growth, banks are increasingly turning to more expensive noncore funding sources such as borrowings. As of December 31, 2005, New Hampshire's insured institutions posted a noncore funding to asset ratio of 20.21 percent which is the 28th highest in the nation (see Chart 4). Noncore funding typically is more sensitive to changes in market interest rates than core funding, and as a result, could further pressure NIMs should rates continue to rise.
- Going forward, the impact on NIMs from increased funding costs in New Hampshire's insured institutions

may be more pronounced due to the large concentrations of long-term mortgage related assets because deposits usually reprice more frequently than long-term assets. New Hampshire's insured institutions hold almost 40 percent of total assets in long-term assets.



¹FYI: An Update on Emerging Issues in Banking. What the Yield Curve Does (and Doesn't) Tell Us. February 22, 2006. <http://www.fdic.gov/bank/analytical/fyi/2006/022206fyi.html>

New Hampshire at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.7%	1.1%	1.5%	1.5%	-0.1%
Manufacturing (13%)	-2.0%	-2.1%	0.2%	-0.4%	-5.4%
Other (non-manufacturing) Goods-Producing (5%)	2.9%	0.0%	-1.2%	1.6%	3.6%
Private Service-Producing (68%)	1.9%	2.1%	2.2%	2.2%	0.3%
Government (14%)	-3.1%	-0.6%	0.2%	0.1%	2.0%
Unemployment Rate (% of labor force)	3.5	3.6	3.6	3.9	4.5
Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	5.3%	8.5%	7.1%	2.5%
Single-Family Home Permits	-13.6%	5.4%	18.9%	7.9%	-5.3%
Multifamily Building Permits	23.2%	-44.1%	-45.0%	20.6%	12.3%
Existing Home Sales	N/A	N/A	2.3%	7.1%	6.7%
Home Price Index	9.8%	10.1%	11.1%	11.3%	9.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.12	4.33	3.30	3.45	3.30

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	27	30	30	30	31
Total Assets (in millions)	19,396	32,069	31,162	31,162	29,662
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	0	0	0	0	0
Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.80	0.61	0.78	0.78	0.94
ALLL/Total Loans (median %)	0.96	0.98	0.97	0.97	1.06
ALLL/Noncurrent Loans (median multiple)	4.41	4.33	4.21	4.21	2.87
Net Loan Losses / Total Loans (median %)	0.01	0.01	0.01	0.01	0.05
Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	8.44	8.38	8.60	8.60	8.73
Return on Assets (median %)	0.73	0.74	0.87	0.86	0.89
Pretax Return on Assets (median %)	0.98	1.09	1.16	1.19	1.42
Net Interest Margin (median %)	3.99	4.01	4.13	4.08	4.15
Yield on Earning Assets (median %)	5.72	5.66	5.38	5.29	5.65
Cost of Funding Earning Assets (median %)	2.03	1.85	1.42	1.37	1.55
Provisions to Avg. Assets (median %)	0.03	0.01	0.03	0.03	0.08
Noninterest Income to Avg. Assets (median %)	0.59	0.58	0.50	0.56	0.58
Overhead to Avg. Assets (median %)	3.03	3.11	2.99	3.03	2.98
Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	72.3	68.0	69.6	69.6	66.3
Noncore Funding to Assets (median %)	20.2	19.7	19.3	19.3	17.9
Long-term Assets to Assets (median %, call filers)	27.3	24.9	24.6	24.6	26.1
Brokered Deposits (number of institutions)	8	9	6	6	5
Brokered Deposits to Assets (median % for those above)	2.0	2.3	2.0	2.0	3.8
Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	39.6	39.7	39.1	39.1	45.0
Commercial Real Estate	235.7	234.6	237.0	237.0	198.7
<i>Construction & Development</i>	37.9	31.0	26.3	26.3	21.3
<i>Multifamily Residential Real Estate</i>	7.6	7.6	7.1	7.1	6.1
<i>Nonresidential Real Estate</i>	174.0	165.9	160.0	160.0	158.0
Residential Real Estate	367.8	371.4	366.5	366.5	357.8
Consumer	27.2	25.7	24.6	24.6	25.4
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Manchester-Nashua, NH	15	6,435	< \$250 million	11 (40.7%)
			\$250 million to \$1 billion	14 (51.9%)
			\$1 billion to \$10 billion	2 (7.4%)
			> \$10 billion	0 (0%)